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PRIMEX

ANNUAL REPORT **2000**

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RIMEX FOREST PRODUCTS LTD. is a Canadian company dedicated to the production and marketing of high quality lumber products from British Columbia's coastal forests. The Company which began in 1963 now has the following major operations and investments:

- ACORN FOREST PRODUCTS DIVISION, Delta, B.C. specializes in hemlock structural and finishing components for traditional Japanese houses.
- SPECIALTY PRODUCTS DIVISION, Delta, B.C. is a kiln drying and lumber remanufacturing plant which produces value-added products for the U.S., Japanese and European markets.
- FIELD SAWMILLS LIMITED PARTNERSHIP, Courtenay, B.C. produces high value lumber products for the Japanese market.
- B. W. CREATIVE WOOD INDUSTRIES LTD., Maple Ridge, B.C. is owned 49% by Primex and 51% by B.W. Creative's management. The Company is one of Canada's leading producers of wooden spindles, stair parts and other specialty products.

- SALT AIR TIMBER PRODUCTS LTD., Chemainus, B.C. is owned 49% by Primex and 51% by Saltair's management. The Company provides kiln drying and lumber processing on a "fee for service" basis.

Raw material for the sawmills is purchased competitively in the open market and Primex draws on many years of experience in the procurement of a suitable log supply. Primex continues at the forefront in sawmill technology with the objective of recovering the highest possible value from B.C.'s unique timber resource. Great pride is taken in the strong international customer base, which has been developed since 1973, for the Company's lumber products.

Primex Forest Products Ltd. is a publicly owned company with its shares listed on the Toronto Stock Exchange.

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FIVE YEAR FINANCIAL HIGHLIGHTS

(in thousands of dollars, except per share amounts) *

| | 2000 | 1999 | 1998 | 1997 | 1996 |
|--------------------------------------|-------------------|------------|------------|------------|------------|
| Sales | 188,042 | 197,781 | 168,079 | 155,784 | 170,672 |
| EBITDA** | 20,907 | 29,173 | 14,462 | 6,511 | 9,228 |
| Depreciation | 5,404 | 5,630 | 4,492 | 4,104 | 3,902 |
| Interest | (259) | (728) | (263) | (34) | 365 |
| Earnings before income taxes | 15,762 | 24,271 | 10,233 | 2,441 | 4,961 |
| Income taxes | 5,825 | 8,980 | 3,786 | 902 | 1,490 |
| Net earnings | 9,937 | 15,291 | 6,447 | 1,539 | 3,471 |
| PER SHARE | | | | | |
| Pre tax earnings | .95 | 1.44 | .59 | .14 | .28 |
| After tax earnings | .60 | .90 | .37 | .09 | .20 |
| Cash flow from operations | 1.27 | 1.77 | .85 | .38 | .51 |
| Shareholders' equity | 4.96 | 4.55 | 3.75 | 3.48 | 3.47 |
| Dividends | .18 | .08 | .08 | .08 | .08 |
| Share price range: | | | | | |
| – high | 6.10 | 6.45 | 3.75 | 4.53 | 4.88 |
| – low | 3.70 | 3.00 | 2.75 | 1.50 | 3.13 |
| Average number of shares outstanding | 16,635,218 | 16,904,987 | 17,387,270 | 17,381,328 | 17,381,328 |
| YEAR END POSITION | | | | | |
| Working capital | 47,082 | 50,893 | 47,245 | 41,680 | 36,388 |
| Capital expenditures | 18,666 | 4,264 | 2,282 | 2,117 | 3,814 |
| Long term debt | 10,478 | 848 | 7,716 | 6,071 | 1,032 |
| Shareholders' equity | 81,954 | 76,517 | 65,712 | 60,437 | 60,289 |
| Number of shares outstanding | 16,518,528 | 16,829,028 | 17,515,328 | 17,381,328 | 17,381,328 |

* All numbers reflect a 2 for 1 share subdivision effective October 1999.

** Earnings before interest, taxes, depreciation and amortization.

For the year ended December 31, 2000 Primex Forest Products Ltd., Delta, B.C. had net earnings of \$9,937,000 or \$.60 per share compared to \$15,291,000 or \$.90 per share for the same period in 1999. Sales for 2000 were \$188,042,000 compared to \$197,781,000 in 1999. Earnings were lower in 2000 than 1999 due mainly to lower production and sales volumes. The lower production was due to downtime for market reasons, the I.W.A. – Canada strike and the capital projects at Field Sawmills.

The Company had net earnings of \$3,761,000 or \$.23 per share for the fourth quarter of 2000 compared to \$1,662,000 or \$.10 per share in the immediately preceding quarter and compared to \$5,227,000 or \$.30 per share for the same period in 1999. Sales for the fourth quarter of 2000 were \$52,379,000 compared to \$51,475,000 in 1999.

Working capital was \$47,082,000 at December 31, 2000 compared to \$50,893,000 at December 31, 1999, down slightly due to the Company's major capital expenditure program. Shareholders' equity increased to \$81,954,000 at December 31, 2000 from \$76,517,000 at December 31, 1999.

A total of \$3,012,000 or \$.18 per share was paid in dividends in 2000. The Board of Directors declared a regular quarterly dividend of \$.02 per share on the common shares of the Company payable February 15, 2001 to shareholders of record February 1, 2001.

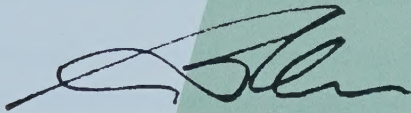
Two major capital projects were completed at Field Sawmills during 2000: a log processing facility in January and an automated lumber sorting system in May at a total cost of \$10 million. Two projects were started at Acorn Forest Products: an automated lumber sorting system to be completed in January 2001 and dry kilns expected to be completed in April 2001 at a total cost of \$14 million. A capital project to provide additional trimming and resawing capacity is underway at Field Sawmills with completion expected during the second quarter of 2001 at a cost of \$3.5 million. Primex also purchased a 49% equity interest in Saltair Timber Products Ltd. effective November 1, 2000. Saltair, located in Chemainus, B.C. is a large scale lumber kiln drying and processing facility operating on a "fee for service" basis. In addition to purchasing the equity interest, Primex has entered into long term agreements with Saltair for kiln drying and processing lumber from Field Sawmills.

The Company continued to purchase common shares under its normal course issuer bid and purchased a total of 310,500 common shares at a cost of \$1,488,000 during 2000. The Company renewed its normal course issuer bid in October 2000 and is continuing to purchase shares in 2001. The total common shares issued and outstanding as at December 31, 2000 was 16,518,528.

Housing starts in Japan were virtually the same in 2000 as in 1999 and there are no signs of improvement for 2001. While demand for lumber remains steady it is not likely to increase in the short term. The market remains vulnerable to over-supply which could put downward pressure on prices. Log costs are expected to be stable through the first half of 2001 but the selling price of residual wood chips is likely to decline beginning in the first quarter.

Management's efforts in 2001 will be focused on maximizing the benefits from the capital expenditures recently completed and currently underway. The anticipated benefits include higher production, lower unit manufacturing cost, improved recovery and a broader product line.

Respectfully submitted on
behalf of the Board.

A handwritten signature in black ink, appearing to read "G. Malpass".

GEORGE L. MALPASS
President & Chief Executive Officer
March 2001

INCORPORATION

The Company was incorporated on May 27, 1963 under the laws of the Province of British Columbia by Memorandum and Articles under the name Evergreen Studs Limited. The Company changed its name to Acorn Forest Products Ltd. in November 1963, to Gregory Manufacturing Limited in April 1972 and finally to Primex Forest Products Ltd. in May 1986.

Field Sawmills Limited Partnership was established January 1, 1992, with Primex owning 70% and MacMillan Bloedel Limited owning 30%. Effective October 1, 1998, Primex purchased MacMillan Bloedel Limited's 30% interest, bringing Primex's ownership to 100%.

The Company has two wholly owned subsidiaries, Primex Fibre Ltd. and Primex Log Trading Ltd. Primex Fibre Ltd. owns a pulp chip manufacturing facility. This facility chips residual wood from the Acorn Forest Products Division and provides fee for service whole log custom chipping. Primex Log Trading Ltd. procures log supply for the sawmills.

The Company's principal office is located at 9924 River Road, Delta, B.C. V4G 1B5 and its registered office is located at #1300 – 777 Dunsmuir Street, Vancouver, B.C. V7X 1K2.

In this document, a reference to the "Company" or "Primex" means Primex Forest Products Ltd. and its predecessors and all of its subsidiaries.

NARRATIVE DESCRIPTION OF THE BUSINESS

Primex's principal business is the manufacture and marketing of high value lumber products for the Japanese market. The Company's operations and investments include:

- Acorn Forest Products Division (Acorn)
- Field Sawmills Limited Partnership (Field)
- Specialty Products Division (Specialty)
- Timber Division (Timber)
- B.W. Creative Wood Industries Ltd. (B.W. Creative)
- Saltair Timber Products Ltd. (Saltair)

Acorn

The Acorn operation, located on the Fraser River in Delta, British Columbia, consists of a log dewatering and merchandising system, a sawmill and a planer mill. The log dewatering and merchandising system was constructed in 1988. The sawmill was completely rebuilt in 1989 after a fire that destroyed substantially all sawmilling equipment.

Acorn specializes in the sizes and grades of lumber components used in Japanese traditional housing. Species cut include hemlock, Douglas fir and spruce. Logs are sourced through log/wood chip trades and open market purchases. Sawmill production in 2000 was 162 million feet. Acorn had 233 employees at the end of 2000.

Field

The Field operation is a sawmill located in Courtenay, British Columbia. The sawmill has undergone significant capital improvement during the past year adding a log processing facility and an automated lumber sorting system.

Field specializes in the sizes and grades of lumber components used in Japanese traditional housing. Species cut include hemlock, Douglas fir, spruce and cypress. Logs are sourced through log/wood chip trades and open market purchases. Sawmill production in 2000 was 91 million feet. Field had 161 employees at the end of 2000.

Specialty

The Specialty operation, located in Delta, British Columbia, consists of dry kilns and lumber remanufacturing equipment. The facility produces value-added products for the U.S., Japanese and European markets. Specialty had 33 employees at the end of 2000.

Timber

The Timber Division manages timber sales under the British Columbia government's Small Business Forest Enterprise Program.

B.W. Creative

Primex owns 49% of B.W. Creative, located in Maple Ridge, British Columbia, which manufactures and markets wooden spindles, stair parts and other specialty products. Its major markets are the U.S., United Kingdom and Canada.

Saltair

Primex owns 49% of Saltair, located in Chemainus, B.C. which is a large scale lumber kiln drying and processing facility operating on a "fee for service" basis. Saltair will provide kiln drying and processing services for Field Sawmills.

Although Primex has over 200 customers throughout Japan, most sales are made through the large Japanese trading companies which provide services such as trade financing to the end customers. The four largest of these trading companies accounted for in aggregate 58% of the Company's total sales during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

1 COMPARISON OF 2000 & 1999 OPERATING RESULTS

| | 2000 | 1999 |
|---------------------------|----------------|----------------|
| Sales | \$ 188,042,000 | \$ 197,781,000 |
| Net Earnings | \$ 9,937,000 | \$ 15,291,000 |
| Net Earnings Per Share | \$.60 | \$.90 |

The earnings at the Acorn Forest Products Division and the Field Sawmills Limited Partnership vary according to lumber selling prices, currency exchange rates, ocean freight costs, log costs, by-product revenues, production volumes and operating costs.

Total sales in 2000 were 72% Japan, 6% Canada, 15% United States and 7% Europe and other off-shore. In 1999 total sales were 72% Japan, 6% Canada, 17% United States and 5% Europe and other offshore. Canadian sales include outside log sales from our managed timber licences and fee for service charges at the Specialty Products Division. Sales to Japan and the United States are denominated in U.S. dollars and, therefore, the U.S./Canadian exchange rate has an impact on earnings. On average for the year \$1.00 U.S. bought \$1.4839 Cdn. in 2000 versus \$1.4857 Cdn. in 1999.

Ocean freight costs, on a per unit shipped basis, increased by approximately 3.5% in Canadian dollars in 2000 compared to 1999.

Average lumber selling prices in Canadian dollars were virtually the same in 2000 as in 1999, having decreased by less than \$1.00 per MFBM.

During 2000, Primex sourced all of its log requirements on the open market or through chip/log trade agreements, all at market prices. Open market log costs fluctuated during the year, but on average they were higher than 1999 by 5.9%.

Primex accounts for its by-product revenue, mainly from wood chips, as a reduction of gross log cost in calculating the cost of lumber produced. Therefore, while changes in by-product revenue do not affect reported sales, they can have a significant impact on margins and, hence, earnings. Revenue from wood chips, on a per unit basis, was 58.1% higher than in 1999.

Acorn lost 18 production days in 2000 due to market reasons and the I.W.A.- Canada strike compared to four days lost in 1999 due to log shortages. Total production volume was 163 million board feet in both 2000 and 1999 while per unit manufacturing costs increased by 2.4%.

Field lost 15 production days in 2000 due to the I.W.A.- Canada strike and capital projects. Total production was 91 million board feet in 2000 down from 96 million board feet in 1999. Per unit manufacturing costs in 2000 were 11.3% higher than 1999.

Specialty operates on a "fee for service" basis providing kiln drying and lumber remanufacturing services for our own mills and several outside customers. Its earnings, therefore, are related to volume of through-put and operating costs. This division suffered a small loss in both 2000 and 1999.

B.W. Creative Wood Industries Ltd., owned 49% by Primex, contributed to earnings in 2000 which is reflected in the accompanying financial statements by the proportionate consolidation method.

Saltair Timber Products Ltd., owned 49% by Primex effective October 31, 2000, experienced a small loss in the period November 1, 2000 to December 31, 2000 which is reflected in the accompanying financial statements by the proportionate consolidation method.

2 CAPITAL EXPENDITURES

| Year | Description | Total |
|------|---|--------------|
| 1999 | Sawmill improvements including extensive log bucking modifications at Field Sawmills and replacement of mobile equipment. | \$4,264,000 |
| 2000 | Sawmill improvements including installation of an automated lumber sorting system at both Acorn Forest Products and Field Sawmills | \$18,666,000 |
| 2001 | Sawmill improvements including installation of an optimized trimmer at Field Sawmills and dry kilns at Acorn Forest Products approved by the Board of Directors to February 23, 2001. | \$11,700,000 |

3 FINANCIAL POSITION

During 2000 the Company generated EBITDA of \$20,907,000. The Company spent \$18,666,000 on capital projects and partially financed these expenditures by drawing down \$10,000,000 of long term bank debt. The balance was financed from cash flow. The Company purchased 310,500 common shares during the year at a total cost of \$1,488,000. Dividends of \$3,012,000 were paid during the year which included an extraordinary dividend of \$.10 per share paid in February 2000.

The Company's depreciation expense was lower in 2000 than in 1999 only because during 1999 the Company accelerated depreciation on assets which were being removed as a result of the J-Bar sorter installation at Field Sawmills. Depreciation expense will increase in 2001 due to the large amount of capital expenditures which have been completed or are currently underway.

Since the inception of the Company's Normal Course Issuer Bid in October 1998 the Company has purchased a total of 1,062,000 common shares at a total cost of \$4,212,000. The Company renewed its normal course issuer bid in October 2000 and is continuing to purchase common shares in 2001. The total common shares issued and outstanding at the end of 2000 was 16,518,528.

Shareholders' equity increased to \$81,954,000 or \$4.96 per share at December 31, 2000 from \$76,517,000 or \$4.55 per share at December 31, 1999.

4 LIQUIDITY

Primarily as a result of the major capital expenditure program the Company's cash balances decreased by \$17,752,000 during the year which resulted in short term bank indebtedness of \$5,048,000 at December 31, 2000. The Company's working capital was \$47,082,000 at December 31, 2000 compared to \$50,893,000 at December 31, 1999. Even with the addition of \$10,000,000 of long term debt during the year the ratio of total long term debt to invested capital only increased to 13.4% at December 31, 2000 compared to 1.2% at December 31, 1999. The Company had unused operating lines of credit totalling \$19,952,000 available at year end.

5 RISKS, UNCERTAINTIES, SENSITIVITIES

a) Japanese Market Concentration

In 2000 72% of the Company's sales were to Japan. Demand for lumber in the Japanese market fell sharply during 1997 and 1998 as housing starts in 1998 were down 27% from the peak in 1996 resulting in significantly lower lumber consumption. Demand and consumption stabilized in 1999 and remained at virtually the same levels in 2000 and are expected to remain at those levels in 2001. Changes in Japanese house building codes and mandatory warranties beginning in June 2000 have had an effect on demand for various types of lumber products. Despite these changes management believes that Japan will continue to be our most important market and that the Company is well positioned to meet the changing demands.

b) Log Supply

The Company's sources of log supply in 2000 were: wood chip/log trade agreements 27%; and, open market purchases 73%. Logs acquired under chip/log agreements are priced at market.

Prices and availability of logs in the open market are affected by supply and demand factors. The major factors impacting log availability in coastal B.C. are the high logging cost structure on Crown lands and overcapacity in the manufacturing sector. Until the overcapacity situation is rectified, sourcing logs suitable for the Company's mills will continue to be a challenge.

c) Currency Exchange Rates

Primex sells to the Japanese and United States markets in U.S. dollars. In 2000, sales to these markets amounted to 87% of total sales. It is expected that sales to these markets will amount to approximately that percentage in 2001. Based on projected sales volumes for 2001, a \$.01 change in the Canadian dollar versus the U.S. dollar at current rates would affect net earnings for that year by approximately \$1,375,000 or \$.08/share. In order to minimize foreign currency exchange rate volatility, the Company at opportune intervals will enter into forward exchange contracts hedging future U.S. dollar denominated sales and receivables. During 2000 the Company hedged \$20,000,000 U.S. at an average exchange rate of 1.4798. At December 31, 2000 the Company had outstanding forward exchange contracts totalling \$2,000,000 U.S. at an exchange rate of 1.4964.

d) Environmental Constraints/Requirements

The Company has outside consultants monitor its operations on an on-going basis to ensure that the principles outlined in the Company's environment policy are being followed. As well as assessing compliance with existing environmental regulations, the consultants recommend improvements in standards. Projects to improve standards are undertaken as recommended. Based on the consultants' reports, the Board of Directors believes that the Company is in substantial compliance with existing environmental laws.

The Acorn, Field and Specialty operations have each received "Chain of Custody Certification" for product derived from Forest Stewardship Council endorsed forest operations.

e) Softwood Lumber Agreement

On February 16, 1996 an agreement was reached between Canada and the United States of America designed to prevent the U.S. government and forest industry from initiating a countervailing duty investigation of Canadian softwood lumber exports to the U.S. for the next five years.

As a result of the agreement individual Canadian companies were assigned a quota for free access to the U.S. softwood lumber market, with shipments beyond that subject to fees, currently of \$53.94 U.S. and \$107.88 U.S. per thousand board feet on small specified volumes and \$148.27 U.S. per thousand board feet on shipments in excess of that for companies in British Columbia.

The U.S. market accounted for 15% of Primex's total sales in 2000. The fifth year of the quota system expires March 31, 2001 and it appears that Primex will be subject to payment of fees for shipments in excess of the quota. Three quarters of the estimate of fees payable have been provided for in the 2000 financial statements based on a pro-rata assignment of the fees for the year.

The agreement will expire March 31, 2001 at which time the quotas will be removed. In the absence of a replacement agreement it is expected that the U.S. forest industry will launch a countervail duty action against Canada. At this point the final impact on the Canadian industry in general or on Primex in particular is unknown.

f) Union Agreement

The Company's hourly employees are members of I.W.A.—Canada whose Master Agreement was renewed effective June 15, 2000 for a term of three years after an industry wide strike.

6 OUTLOOK

Housing starts in Japan were virtually the same in 2000 as in 1999 and there are no signs of improvement in 2001. While demand for lumber remains steady it is not likely to increase in the short term. The market remains vulnerable to over-supply which could put downward pressure on prices. Log costs are expected to be stable through the first half of 2001 but the selling price of residual wood chips is likely to decline beginning in the first quarter.

STATEMENT OF ENVIRONMENTAL PHILOSOPHY

Primex Forest Products Ltd. will conduct all of its operations in a manner that promotes environmental sustainability and minimizes the potential for negative impacts on the environment. This principle of continued environmental protection and improvement will be achieved within the framework of regulatory compliance and operation as an efficient and profitable provider of quality forest products.

STATEMENT OF SENIOR MANAGEMENT SUPPORT

Primex's senior management supports and encourages the creation of a corporate Environmental Management System (EMS) to ensure and demonstrate compliance with our stated Guiding Principles and Policy Goals.

Senior management appreciates that development and implementation of an EMS will place additional demands on personnel and resources. They are, however, prepared to make the resources available as they recognize that these will be offset through increased environmental protection, and regulatory compliance, along with reduced liability, waste generation and subsequent treatment costs.

Management also recognizes that only through continued efforts to sustain and improve environmental quality can Primex's continued survival and growth be assured, and that only through continued profitable operation can Primex allocate the resources necessary to achieve their environmental goals and objectives.

ORGANIZATION AND RESPONSIBILITIES

A management and organizational structure has been set up to define and document the responsibility, authority and interactions of key personnel who manage, perform and verify work affecting the environment.

A management structure includes representatives with organizational freedom and authority to:

- provide sufficient resources and personnel for implementation,
- initiate action to assure compliance,
- identify and record any environmental problems,
- initiate, recommend or provide solutions to those problems through designated channels,
- verify the implementation of such solutions,
- control further activities until any environmental deficiency or unsatisfactory condition has been corrected, and
- act in emergency situations.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of Primex Forest Products Ltd. have been prepared by management in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in the annual report is consistent with the consolidated financial statements.

Management maintains a system of internal controls over financial reporting which encompasses policies, procedures and controls to provide reasonable assurance that assets are safeguarded against loss or unauthorized use, that transactions are executed and recorded in accordance with management's authorization and that financial records are accurate and reliable.

The Audit Committee, which is comprised of outside directors, meets periodically with management and the external auditors to review the adequacy of the system of internal controls and the integrity of the Company's financial reporting.

The consolidated financial statements have been reviewed by the Audit Committee prior to submission to the Board. In addition, the consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, who have full access to the Audit Committee with and without the presence of management. Their report follows.



G.L. Malpass
President & Chief Executive Officer



P.D. Rivers
Vice President – Finance
Chief Financial Officer
February 16, 2001

AUDITORS REPORT

February 16, 2001

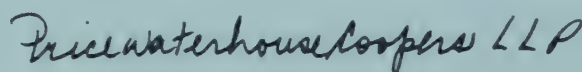
**To the Shareholders
of Primex Forest Products Ltd.**

We have audited the consolidated balance sheets of Primex Forest Products Ltd. as at December 31, 2000 and 1999 and the consolidated statements of earnings and earnings reinvested in the business and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test

basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, B.C.

CONSOLIDATED STATEMENTS OF EARNINGS

And Earnings Reinvested in the Business for the
Years ended December 31, 2000 and 1999
(in thousands of dollars, except per share amounts)

| | 2000 \$ | 1999 \$ |
|--|------------|------------|
| Sales (note 9) | 188,042 | 197,781 |
| Expenses | | |
| Cost of sales | 143,476 | 144,549 |
| Ocean freight | 17,368 | 17,739 |
| Selling and administration | 6,457 | 6,358 |
| Depreciation | 5,404 | 5,630 |
| Interest on long-term debt | 104 | 106 |
| Gain on disposal of capital assets | (166) | (38) |
| Interest income | (363) | (834) |
| | 172,280 | 173,510 |
| Earnings before income taxes | 15,762 | 24,271 |
| Provision for (recovery of) income taxes (note 10) | | |
| Current | 8,192 | 8,146 |
| Future | (2,367) | 834 |
| | 5,825 | 8,980 |
| Net earnings for the year | 9,937 | 15,291 |
| Earnings reinvested in the business – Beginning of year | 72,548 | 61,581 |
| Dividends paid [\$0.18 per share (1999 – \$0.08)] | (3,012) | (1,353) |
| Stock options surrendered | – | (640) |
| Share purchase and cancellation (note 7) | (1,414) | (2,331) |
| Earnings reinvested in the business – End of year | 78,059 | 72,548 |
| Basic earnings per share (note 8) | 0.60 | 0.90 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years ended December 31, 2000 and 1999
(in thousands of dollars)

| | 2000 \$ | 1999 \$ |
|---|------------|------------|
| Cash flows from operating activities | | |
| Net earnings for the year | 9,937 | 15,291 |
| Items not affecting cash | | |
| Depreciation | 5,404 | 5,630 |
| Gain on disposal of capital assets | (166) | (38) |
| Future income taxes | (2,367) | 834 |
| | 12,808 | 21,717 |
| Changes in non-cash working capital | | |
| Accounts receivable | (4,981) | 789 |
| Inventories | (8,213) | (16,029) |
| Income taxes payable | (3,776) | 4,533 |
| Accounts payable and accrued liabilities | 730 | (1,282) |
| Other | (12) | (8) |
| | (3,444) | 9,720 |
| Cash flows from financing activities | | |
| Proceeds of long-term debt | 10,000 | — |
| Repayment of long-term debt | (153) | (7,683) |
| Stock options surrendered | — | (640) |
| Repurchase of common shares | (1,488) | (2,493) |
| Dividends paid | (3,012) | (1,353) |
| | 5,347 | (12,169) |
| Cash flows from investing activities | | |
| Purchase of capital assets | (18,666) | (4,264) |
| Proceeds on disposition of capital assets | 386 | 119 |
| Acquisition of interest in Saltair Timber Products Ltd. (note 2) | (1,375) | — |
| | (19,655) | (4,145) |
| Decrease in cash | (17,752) | (6,594) |
| Cash – Beginning of year | 12,704 | 19,298 |
| (Bank indebtedness) cash – End of year | (5,048) | 12,704 |
| Supplemental cash flow information | | |
| Interest received | 541 | 755 |
| Interest paid | 653 | 106 |
| Taxes paid | 11,925 | 3,682 |

CONSOLIDATED BALANCE SHEETS

As at December 31, 2000 and 1999
(in thousands of dollars)

| | 2000 \$ | 1999 \$ |
|--|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash | — | 12,704 |
| Accounts receivable | 22,887 | 17,950 |
| Inventories (note 3) | 49,508 | 41,274 |
| Other | 643 | 310 |
| | 73,038 | 72,238 |
| Capital assets (note 4) | 53,665 | 34,210 |
| | 126,703 | 106,448 |
| LIABILITIES | | |
| Current liabilities | | |
| Bank indebtedness (notes 5 and 6) | 5,048 | — |
| Accounts payable and accrued liabilities | 16,572 | 12,772 |
| Income taxes payable | 1,617 | 5,244 |
| Current portion of long-term debt (note 6) | 2,219 | 110 |
| Future income taxes | 500 | 3,219 |
| | 25,956 | 21,345 |
| Long-term debt (note 6) | 10,478 | 848 |
| Future income taxes (note 10) | 8,315 | 7,738 |
| | 44,749 | 29,931 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (note 7) | 3,895 | 3,969 |
| Earnings reinvested in the business | 78,059 | 72,548 |
| | 81,954 | 76,517 |
| | 126,703 | 106,448 |

Commitments (note 12)

Approved by the Board of Directors



Director



Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999
(tabular amounts in thousands of dollars)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Primex Forest Products Ltd., its wholly-owned subsidiaries and Field Sawmills Limited Partnership. B.W. Creative Wood Industries Ltd., a 49% indirectly owned joint venture and Saltair Timber Products Ltd., (note 2) a 49% owned joint venture are accounted for by the proportionate consolidation method (together, the "Company").

All material intercompany transactions have been eliminated.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Inventories

Cost is determined on the first-in, first-out (FIFO) basis. The inventories are valued as follows:

| | |
|--------------------|--|
| Logs | lower of cost and replacement cost |
| Lumber | lower of cost and estimated net realizable value |
| Chips and sawdust | net realizable value |
| Operating supplies | cost |

Logging development costs

Logging development costs incurred under the Provincial Small Business Forest Enterprise program are being amortized on a unit-of-production basis, based on estimated total logging costs and log production.

Capital assets

Capital assets are stated at cost. The costs of repairs and replacements of a routine nature are charged to earnings while those expenditures which improve or extend the useful lives of the assets are capitalized.

Depreciation is provided using the straight-line method at rates sufficient to amortize the costs over the estimated useful lives of the assets as follows:

| | |
|------------------------|---------------------|
| Buildings and yard | 20 to 40 years |
| Plant equipment | 10 to 15 years |
| Mobile equipment | 3 to 5 years |
| Other | 2 to 5 years |
| Leasehold improvements | over the lease term |

Derivative financial instruments

Derivative financial instruments in the form of foreign exchange contracts are utilized to hedge certain transactions denominated in foreign currencies, primarily export sales. These instruments serve to protect the Company from currency fluctuations between the transaction date and settlement. The Company does not hold or issue financial instruments for trading purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999
(tabular amounts in thousands of dollars)

Foreign currency translation

Accounts receivable that are hedged by forward exchange contracts are translated at the forward exchange contract rates. Other amounts receivable and payable in foreign currencies are translated to Canadian dollars at the year-end rate of exchange. Revenue and expenses not hedged are translated throughout the year at the prevailing exchange rates. All exchange gains and losses are included in the determination of net earnings for the year.

Income taxes

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, such as capital loss carryforwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in income tax rates is recognized in earnings in the period of such change.

2 ACQUISITION

Effective November 1, 2000, the Company acquired a 49% interest in Saltair Timber Products Ltd. ("Saltair"). Saltair owns and operates a planer mill and dry kilns on Vancouver Island. The results of operations are proportionately consolidated in the accompanying consolidated financial statements. The purchase price was allocated based on fair values as follows:

| | |
|---------------------------|--------------|
| | \$ |
| Net assets acquired | |
| Capital assets | 4,085 |
| Less: | |
| Long-term debt | 1,891 |
| Current liabilities – net | 595 |
| Future income taxes | 224 |
| | <u>2,710</u> |
| Cash consideration | <u>1,375</u> |

3 INVENTORIES

| | 2000 \$ | 1999 \$ |
|--------------------|---------------|---------------|
| Logs | 34,658 | 31,562 |
| Lumber | 14,294 | 9,326 |
| Chips | 146 | 28 |
| Operating supplies | 410 | 358 |
| | <u>49,508</u> | <u>41,274</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999
(tabular amounts in thousands of dollars)

4 CAPITAL ASSETS

| | 2000 | | |
|---------------------------|------------|-----------------------------------|-----------|
| | Cost \$ | Accumulated depreciation \$ | Net \$ |
| Equipment | 82,184 | 39,186 | 42,998 |
| Buildings | 13,000 | 3,982 | 9,018 |
| Leasehold improvements | 2,122 | 1,880 | 242 |
| | 97,306 | 45,048 | 52,258 |
| Land | 1,407 | — | 1,407 |
| | 98,713 | 45,048 | 53,665 |

| | 1999 | | |
|---------------------------|------------|-----------------------------------|-----------|
| | Cost \$ | Accumulated depreciation \$ | Net \$ |
| Equipment | 62,360 | 36,345 | 26,015 |
| Buildings | 10,642 | 3,476 | 7,166 |
| Leasehold improvements | 1,951 | 1,796 | 155 |
| | 74,953 | 41,617 | 33,336 |
| Land | 874 | — | 874 |
| | 75,827 | 41,617 | 34,210 |

5 BANK INDEBTEDNESS

The bank indebtedness is secured by an assignment of accounts receivable and inventories together with the demand debenture referred to in note 6.

6 LONG-TERM DEBT

| | 2000 \$ | 1999 \$ |
|--|------------|------------|
| Floating rate term bank loan with interest approximating prime, secured by a \$30,000,000 demand debenture | 10,000 | — |
| Other | 2,697 | 958 |
| | 12,697 | 958 |
| Less: Current portion | 2,219 | 110 |
| | 10,478 | 848 |

The \$30,000,000 demand debenture securing the bank loans and indebtedness provides a fixed charge on certain capital assets, a floating charge on all other assets and contains covenants requiring bank consent on certain activities and maintenance of certain customary financial covenants.

Annual payments of principal required to meet debt obligations are as follows:

| | \$ |
|------------|--------|
| 2001 | 2,219 |
| 2002 | 2,235 |
| 2003 | 6,233 |
| 2004 | 184 |
| 2005 | 206 |
| Thereafter | 1,620 |
| | 12,697 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

(tabular amounts in thousands of dollars, except per share amounts)

7 CAPITAL STOCK

Authorized

200,000,000 common shares with no par value

Issued

| | 2000 \$ | 1999 \$ |
|---|------------|------------|
| 16,518,528 (1999 – 16,829,028) common shares | 3,895 | 3,969 |

At a Special General Meeting on September 15, 1999, shareholders approved a two-for-one subdivision of the Company's common shares and an increase in authorized common shares to 200,000,000 effective October 1, 1999. All per share numbers in the accompanying consolidated statements have been restated to reflect the two-for-one subdivision.

Pursuant to a normal course issuer bid, the Company acquired and cancelled 310,500 common shares (1999 – 686,300 shares). The total purchase consideration was \$1,488,000 (1999 – \$2,493,000), of which \$74,000 (1999 – \$162,000) has been deducted from capital stock and \$1,414,000 (1999 – \$2,331,000) has been deducted from earnings reinvested in the business.

Stock options

The Company has a stock option plan for selected officers and senior managers. Stock options vest after a five-year holding period and expire 10 years from the date of grant. A summary of stock options outstanding is presented below:

| | 2000 | | 1999 | |
|---------------------------------------|---------|--|-----------|--|
| | Shares | Weighted average exercise price \$ | Shares | Weighted average exercise price \$ |
| Outstanding – Beginning of year | 844,000 | 2.48 | 1,098,000 | 2.42 |
| Granted | 6,000 | 5.50 | 6,000 | 3.63 |
| Exercised | – | – | (260,000) | 2.25 |
| Outstanding – End of year | 850,000 | 2.50 | 844,000 | 2.48 |

The weighted average remaining contractual life of the options outstanding at December 31, 2000 was 2.2 years (1999 – 3.2 years) and the number of options exercisable as at December 31, 2000 was 704,000 (1999 – 700,000) options.

In 1999, the Company amended its Stock Option Plan to permit the tendering of stock options for cash. No stock options were tendered in 2000. In 1999, optionees tendered 260,000 shares (on a post-split basis) for \$1,040,000. The cost has been charged to earnings reinvested in the business, net of applicable income taxes of \$400,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999
(tabular amounts in thousands of dollars)

8 EARNINGS PER SHARE

Fully diluted earnings per share, which have been calculated on the basis that all stock options were exercised on the date of grant notwithstanding their earliest exercise date, were \$0.57 per share for the year ended December 31, 2000, based on 17,485,218 net shares outstanding during the year (\$0.86 per share for 1999 based on 17,748,987 net shares for that year). Basic earnings per share calculations have been based on 16,635,218 (1999 – 16,904,987) weighted average net outstanding shares during the year.

9 SEGMENTED INFORMATION

The Company operates in one business segment, the processing of wood products. All of the Company's assets are located in Canada.

Sales and other income by location of customer are as follows:

| | 2000 \$ | 1999 \$ |
|------------------|----------------|----------------|
| Japan | 135,654 | 141,510 |
| Canada | 11,273 | 12,865 |
| United States | 28,993 | 32,677 |
| Europe and other | 12,122 | 10,729 |
| | <u>188,042</u> | <u>197,781</u> |

10 INCOME TAXES

The effective tax rate of the Company for the years ended December 31, 2000 and 1999 differed from the combined federal and provincial statutory rates as follows:

| | 2000 % | 1999 % |
|--|-------------|-------------|
| Combined federal and provincial statutory rate | 45.6 | 45.6 |
| Manufacturing and processing allowance | (7.0) | 7.0 |
| Subtotal | 38.6 | 38.6 |
| Other | (1.6) | (1.6) |
| | <u>37.0</u> | <u>37.0</u> |

The tax effects of the significant components of temporary differences that give rise to future income tax liabilities are as follows:

| | 2000 \$ | 1999 \$ |
|---|--------------|---------------|
| Depreciable capital assets | 8,315 | 7,738 |
| Partnership income taxable in subsequent year | 500 | 3,219 |
| | <u>8,815</u> | <u>10,957</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999
(tabular amounts in thousands of dollars)

11 FINANCIAL INSTRUMENTS

Credit risk

Although the majority of the Company's lumber sales are to the Japanese market, the credit risk arising from concentration in this market is minimized as lumber sales are realized from a number of large customers and are generally secured by letters of credit or equivalent instruments of guarantee. The Company deals only with highly rated financial institutions for these instruments. Log sales, mainly to the domestic market, are generally transacted on a cash basis. As a result, the Company is not exposed to significant risk of credit-related losses.

Foreign exchange risk

The majority of the Company's lumber sales are denominated in U.S. dollars. The Company is exposed to risk of loss depending on the relative movement of this currency against the Canadian dollar. Exposure to foreign exchange fluctuations is managed through the use of forward exchange contracts.

At December 31, 2000, the Company had outstanding foreign exchange contracts in the amount of U.S. \$2,000,000 (1999 – U.S. \$4,000,000) at an average rate of \$1.4964 to \$1 U.S. expiring in the first quarter of 2001.

Long-term debt

The fair value of long-term debt approximates book value at December 31, 2000 and 1999.

Current assets and liabilities

The carrying values reported in the balance sheet for cash, accounts receivable, and accounts payable and accrued liabilities are reasonable estimates of fair values.

12 COMMITMENTS

The Company is obligated under operating lease agreements for aggregate basic annual rentals of approximately:

| | \$ |
|------|-----|
| 2001 | 553 |
| 2002 | 538 |
| 2003 | 379 |
| 2004 | 217 |
| 2005 | 200 |

The Company has entered into commitments to acquire capital assets in 2001 in the amount of \$3,633,000.

13 PENSION PLANS

The majority of the Company's salaried employees are eligible to participate in pension plans after one year of service. Required company contributions are based on a percentage of compensation and are charged to earnings as incurred. The majority of the Company's hourly paid workers are enrolled in a pension plan into which the Company pays a rate per hour worked. These payments are charged to earnings as incurred.

14 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.

CORPORATE INFORMATION

DIRECTORS

LORNE R. BOLTON*

Company Director

GEORGE L. MALPASS

President & Chief Executive Officer
Primex Forest Products Ltd.

CONRAD A. PINETTE*

President and Chief Operating Officer
Lignum Ltd.

DONALD H. REED*

Company Director

PAUL D. RIVERS

Vice President – Finance & Secretary
Primex Forest Products Ltd.

JOHN P. SULLIVAN

Vice President – Corporate Development
Primex Forest Products Ltd.

* Members of the Audit Committee

OFFICERS

GEORGE L. MALPASS

President & Chief Executive Officer

PAUL D. RIVERS

Vice President – Finance & Secretary

JOHN P. SULLIVAN

Vice President – Corporate Development

JOHN N. BURCH

Vice President – Marketing

ED R. VERVYNCK

Vice President – Manufacturing

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, B.C., Toronto, Ontario

SHARES LISTED

The Toronto Stock Exchange – PXF

BANKERS

Royal Bank of Canada

SOLICITORS

McCarthy Tétrault, Vancouver, B.C.

AUDITORS

PricewaterhouseCoopers LLP, Vancouver, B.C.

HEAD OFFICE

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ANNUAL MEETING

Thursday April 26, 2001, 2:30 p.m.

The Four Seasons Hotel, Vancouver, B.C.

OPERATIONS & INVESTMENTS

- Acorn Forest Products Division, Delta, B.C.
- Specialty Products Division, Delta, B.C.
- Field Sawmills Limited Partnership, Courtenay, B.C.
- Timber Division, Courtenay, B.C.
- Primex Fibre Ltd., Delta, B.C.
- Primex Log Trading Ltd., Delta, B.C.
- B.W. Creative Wood Industries Ltd., Maple Ridge, B.C.
- Saltair Timber Products Ltd., Chemainus, B.C.



